

GOVERNMENT OF KARNATAKA

PROCEEDINGS OF THE DIRECTOR, FISCAL POLICY INSTITUTE

Sub: Creation of 'Debt Management and Financial Analysis (DMFA) Cell'

Preamble:

The KFRA Act, 2002 stipulates that it is the responsibility of the State Government to ensure fiscal stability and sustainability, and to reduce fiscal deficit and remove impediments to the effective conduct of fiscal policy and prudent debt management through limits on State Government borrowings, debt and deficits, greater transparency in fiscal operations of the State Government and emphasizes to maintain Government debt at prudent levels.

The state government which has to borrow from different sources needs to have a dependable mechanism to compile the entire spectrum of borrowings and the outstanding debt, and monitor and use them for their borrowing strategy. Effective debt management practices suggest that debt management functions should be consolidated in one primary location and organized along functional lines.

Further in the FPAC creation orders, vide G.O. No.FD 52 BGL 2005 Bangalore, dated 10th June 2005, it was proposed that one of the five functional units at FPAC would be 'Debt Management'. The said GO specified the responsibilities of the unit as - tracking, managing and planning for the government's debts, loans, guarantees, payment schedules, contingent liabilities, cash flow plans, risk management strategies and other debt-related information. The linkages between this unit and the Expenditure Planning and Analysis unit will be critically important to government's resource planning efforts. It also specified the staffing pattern of the unit as – with an initial strength of three, will have to be manned by staff drawn from Finance Department, Reserve Bank of India, Office of the Accountant General, State PSU in the area of Financing and also a person may be drawn from the Economic and Statistics Department to provide the statistical support.

As a first step in that direction, Director, FPI has proposed Creation of 'Debt Management and Financial Analysis (DMFA) Cell' initially to cater to the specific analytical needs of the external

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